

STATE OF LOUISIANA LEGISLATIVE AUDITOR

**Department of Natural Resources -
Home Energy Rebate Option Program**
Baton Rouge, Louisiana

November 27, 2002



Investigative Audit

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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Department of Natural Resources - Home Energy Rebate Option Program

November 27, 2002



**Investigative Audit
Office of the Legislative Auditor
State of Louisiana**

**Daniel G. Kyle, Ph.D., CPA, CFE
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November 27, 2002

MR. JACK C. CALDWELL, SECRETARY
DEPARTMENT OF NATURAL RESOURCES
Baton Rouge, Louisiana

Transmitted herewith is our investigative report on the Department of Natural Resources - Home Energy Rebate Option program. Our examination was conducted in accordance with Title 24 of the Louisiana Revised Statutes and was performed to determine the propriety of certain allegations received by this office.

This report presents our finding and recommendations, as well as your response. Copies of this report have been delivered to the Honorable Doug Moreau, District Attorney for the Nineteenth Judicial District of Louisiana; the United States Attorney for the Middle District of Louisiana; and other authorities as required by state law.

Respectfully submitted,

Daniel G. Kyle, CPA, CFE
Legislative Auditor

MJL:EKL:DGP:dl

[DNR02]

Executive Summary

Department of Natural Resources - Home Energy Rebate Option Program

Finding (*See page 5.*)

Highlights . .

Of 15 homes examined, ten contained modifications listed by Mr. Brian Prince that were not actually performed, 11 contained costs that were significantly overstated, and 13 homes did not qualify for a portion or all of the HERO rebate.

There were 15 occasions where the homeowner or contractor informed us that his or her signature was not genuine.

As a result of Mr. Prince's actions, \$19,296 in excess payments was generated.

DNR should require homeowners to certify their agreement with the specifications and costs noted by the rater. Raters should submit copies of invoices pertaining to renovations.

The Department of Natural Resources (DNR) records indicate that the Home Energy Rebate Option program (HERO) payments of \$38,201 were paid to homeowners of 20 existing homes rated by Mr. Brian Prince. We were able to examine 15 of these homes, which accounted for \$28,926 (or 76%) of these rebates.

Of the 15 homes we examined, ten contained modifications listed by Mr. Prince that were not actually performed. We also noted 11 of the 15 reports contained costs for improvements that were significantly overstated. As a result, 13 of the 15 homes did not qualify for a portion or all of the HERO rebate.

DNR requires the rater to submit a certification of costs and a Certificate of Completion for each existing home qualifying for a HERO rebate. Of the 15 homes examined, there were 15 occasions where the homeowner or contractor informed us that his or her signature on the certificate was not genuine. Mr. Prince admitted he signed the names of seven of these individuals and stated it was possible he signed two others.

As a result of these actions by Mr. Prince, \$19,296 in excess payments were generated, and Mr. Prince received \$3,450 from these homeowners.

Recommendations (*See page 11.*)

We recommend DNR require homeowners to sign a statement on the face of Form 1119 indicating they agree with the specifications and costs noted by the rater. We further recommend DNR require the HERO raters to submit to the department copies of invoices pertaining to home renovations. These invoices should be compared to Form 1119 and the department should examine and reconcile any discrepancies.

We recommend the United States Attorney for the Middle District of Louisiana and the District Attorney for the Nineteenth Judicial District review this matter and take appropriate legal action, to include seeking restitution.

Management's Response (*See Attachment I.*)

The Department of Natural Resources agrees with the finding contained in the investigative report on the HERO program. Management states that it will implement the recommendations contained in the report.

Background and Methodology

During a May 6, 2002, meeting, the Louisiana Department of Natural Resources (DNR) informed the legislative auditor that documents received by DNR's Home Energy Rebate Option program (HERO) from Mr. Brian Prince, a DNR certified home energy rater, might contain false information. This investigative audit resulted from that meeting. During this investigative audit, numerous DNR officials extended their complete cooperation. The department further assisted by performing ratings of certain homes examined in the audit.

The procedures performed during this investigative audit consisted of (1) interviewing employees and officials of the department; (2) interviewing other persons as appropriate; (3) examining selected documents and records of the department; (4) making inquiries and performing tests to the extent we considered necessary to achieve our purpose; and (5) reviewing applicable state and federal laws and regulations.

The results of our investigative audit are the finding and recommendations herein.

Finding

During the period from January 2000 through April 2002, Mr. Brian Prince, a DNR certified home energy rater, submitted documents to the Department of Natural Resources (DNR) that contained false information, exaggerated reporting of costs, and forged signatures. As a result of the information received from Mr. Prince, DNR's Home Energy Rebate Option program (HERO) paid \$19,296 to 13 homeowners who were not entitled to these funds. These homeowners paid Mr. Prince \$3,450 for his services.

DNR administers HERO, which is funded by federal Petroleum Violation Escrow funds deposited in the state treasury. HERO provides a rebate of up to \$2,000 to homebuilders, homebuyers, or homeowners that make energy efficiency improvements to a home. In its administration of the program, DNR trains individuals to become HERO certified raters. DNR

HERO provides rebates to homeowners for energy efficiency improvements.

uses these independent raters to determine that the energy improvements to a home meet the program's eligibility requirements. For an existing home to qualify there must be a 30% increase in the home's energy efficiency. Only DNR certified energy raters make these determinations.

For an existing home to be considered for the HERO program, procedures must be followed to assure eligibility. First, the rater must perform an initial test of the home to determine its initial energy efficiency. The rater then makes recommendations that will increase efficiency to the required level. Subsequently, the rater inspects the home to determine that the improvements have been made and then conducts a final efficiency test to assure the increase. The rater then submits to DNR a completed Energy Rated Homes of Louisiana Form 1119 certifying the costs of the improvements and a Certificate of Completion. Thereafter, DNR processes the documentation and mails a rebate check to the homeowner. The certified rater is paid a fee directly by the homeowner.

Mr. Bryan Prince is certified by DNR and performed home energy ratings until April 2002. DNR records indicate that as a result of the ratings performed by Mr. Prince, \$190,895 in rebates were generated by the HERO program to homeowners. Most of these ratings were for new homes. Rebates totaling \$38,201 were for existing homes. The legitimacy of rebates for new homes can only be determined by having a second rating performed. Lacking the resources to have a large number of homes rated a second time, this investigative audit focused on existing homes. Rebates for existing homes are based on the actual costs of modifications. Therefore, we were able to readily determine the accuracy of Mr. Prince's reporting, and, consequently, the legitimacy of these rebates by examining the actual cost incurred by the homeowners. In addition, in several instances where the rebate appeared questionable, DNR officials assisted our investigation by performing ratings on these homes.

DNR records indicate that HERO payments of \$38,201 were generated for 20 existing homes rated by Mr. Prince. We were able to examine 15 of these homes, which accounted for \$28,926 (or 76%) of these rebates. The documentation submitted by Mr. Prince to DNR contained false information, exaggerated costs, and forged signatures.

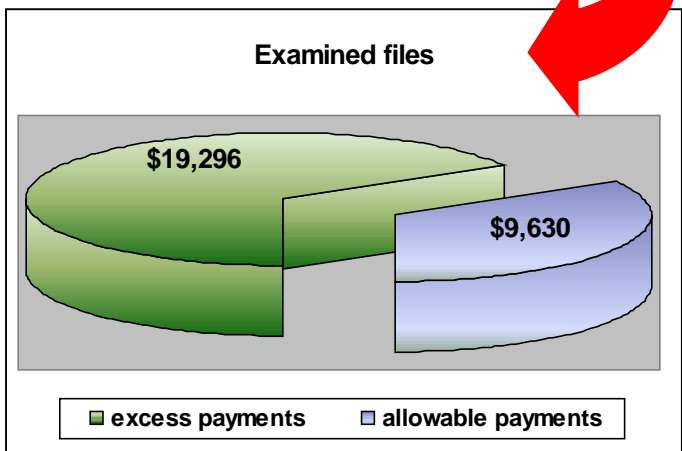
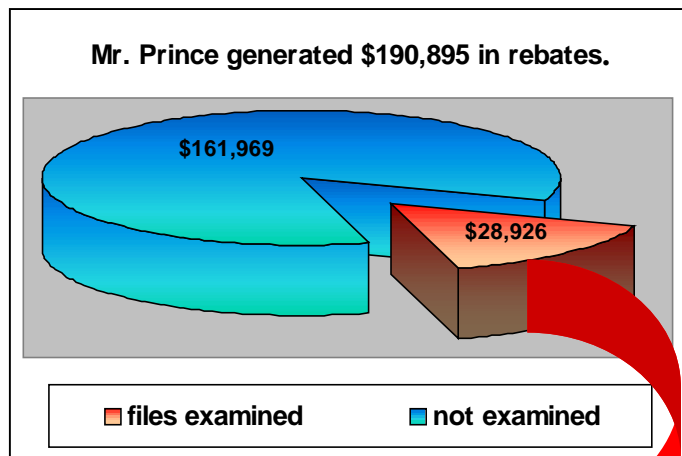
Mr. Prince submitted documents containing false information, exaggerated costs, and forged signatures.

As previously stated, DNR requires raters to submit a certification of costs (Form 1119) to report the homeowner's actual improvement costs, which the rater is required to verify. In addition, the rater is required to submit a Certificate of Completion for each existing home. The Certificate of Completion states that the homeowner, contractor, and certified energy rater have inspected the property and that the improvements have been completed.

Of the 15 homes we examined, ten contained modifications listed by Mr. Prince on Form 1119 that were not actually performed. We also noted 11 of the 15 reports submitted by Mr. Prince contained costs that were significantly overstated. As a result, 13 of the 15 homes did not qualify for a portion or the entire HERO rebate paid by DNR.

For example, for a home owned by Mr. Arthur Levy, Mr. Prince reported that the homeowner spent \$14,650 on modifications; however, Mr. Levy spent only \$1,645. For a home owned by Mr. John H. Reynolds, Mr. Prince reported renovation costs totaling \$11,680 even though the homeowner's actual cost was only \$5,865. Other examples include an overstatement of costs totaling \$9,095 for a home owned by Ms. Kathy Cacioppo and \$8,090 for a home owned by Mr. Philip Cortese. *(See exhibits on pages 8 and 9.)*

Also, for 15 documents submitted by Mr. Prince, the homeowner or contractor informed us that the signature on the certificate was not his and therefore a forgery. Mr. Prince admitted he signed the names of seven of these individuals and stated it was possible he signed two others.



RESULTING HERO PAYMENTS

As noted previously, 13 of the 15 homes examined did not qualify for the rebate received. These unqualified payments totaled \$19,296 (or 66% of the \$28,926 in excess payments received by these homeowners) and were mailed by DNR to the homeowners. In addition, Mr. Prince charged the homeowners between \$150 and \$350 each for his services as the home energy rater and received \$3,450 for the 13 homes that did not qualify for the rebate.

Mr. Prince's actions may indicate possible violations of one or more of the following laws:

- RS 14:72, "Forgery"¹
- RS 14:133, "Filing False Public Records"²
- 18 U.S.C. §641, "Theft"³
- 18 U.S.C. §666, "Theft from Federal Programs"⁴
- 18 U.S.C. §1341, "Mail Fraud"⁵

The actual determination as to whether this individual is subject to formal charge is at the discretion of the district attorney and/or the United States Attorney.

¹ **R.S. 14:72** provides, in part, that forgery is the false making or altering, with intent to defraud, of any signature to, or any part of, any writing purporting to have legal efficacy.

² **R.S. 14:133** provides, in part, that filing false public records is the filing or depositing for record in any public office or with any public official, or the maintaining as required by law, regulation, or rule, with knowledge of its falsity, any forged document, any wrongfully altered document, or any document containing a false statement or false representation of a material fact.

³ **18 U.S.C. §641** provides, in part, that whoever embezzles, steals, purloins, or knowingly converts to his use or the use of another, or without authority, sells, conveys or disposes of any record, voucher, money, or thing of value of the United States or of any department or agency thereof, or any property made or being made under contract for the United States or any department or agency thereof shall be fined under this title or imprisoned not more than five years, or both.

⁴ **18 U.S.C. §666** provides, in part, that theft concerning programs receiving federal funds occurs when an agent of an organization, state, local, or Indian tribal government or any agency thereof embezzles, steals, obtains by fraud, or otherwise intentionally misapplies property that is valued at \$5,000 or more and is owned by or under control of such organization, state, or agency when the organization, state, or agency receives in any one year period, benefits in excess of \$10,000 under a federal program involving a grant contract, or other form of federal assistance.

⁵ **18 U.S.C. §1341**, provides, in part, that mail fraud is having devised or intended to devise any scheme to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises for the purpose of executing such scheme or attempting so to do, places in any post office or authorized depository for mail matter, any matter or thing whatever to be sent or delivered by the Postal Service, or takes or received therefrom, any such matter or thing, or knowingly causes to be delivered by mail according to the direction thereon.

Recommendations

We recommend DNR require homeowners to sign a statement on the face of Form 1119 indicating they agree with the specifications and costs noted by the rater. We further recommend DNR require the HERO raters to submit to the department copies of invoices pertaining to home renovations. These invoices should be compared to Form 1119, and the department should examine and reconcile any discrepancies.

We recommend the District Attorney for the Nineteenth Judicial District and the U.S. Attorney for the Middle District of Louisiana review this matter and take appropriate legal action, to include seeking restitution.

Attachment I

Management's Response



M.J. "MIKE" FOSTER, JR.
GOVERNOR

JACK C. CALDWELL
SECRETARY

November 7, 2002

DEPARTMENT OF NATURAL RESOURCES

Mr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Kyle:

DNR is in agreement with the findings of your investigation of the DNR Home Energy Rebate Option (HERO) program, more specifically, the actions of one of the private-sector home energy raters working under the program. We will implement both recommendations contained in the audit, i.e. requiring the homeowner to sign the Form 1119 and requiring the submission of copies of invoices pertaining to home renovations undertaken under the program.

The purpose of the HERO program is to assist Louisiana homeowners in reducing their energy consumption, thereby saving them money and at the same time reducing the release of air pollution emissions associated with the production and use of energy. DNR is committed to assuring that all rebates paid under the program result in verifiable energy savings and a corresponding reduction in air pollution emissions.

To this end, DNR has an aggressive three-tier quality assurance program.

1. In-house review of all ratings.
2. Field investigation of complaints and suspicious ratings identified during the in-house review. It was during one such field investigation that we discovered the improprieties that led to our requesting your office to investigate this matter.
3. Annual field audit of a random sample of houses that have gone through the program and energy raters working under the program.

Let me assure you that DNR takes our responsibility very seriously and intends to continue aggressively monitoring the HERO program.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert D. Harper".

Robert D. Harper
Undersecretary

RDH/wb

C: Jack C. Caldwell, Secretary
Mike French, Technology Assessment Division Director